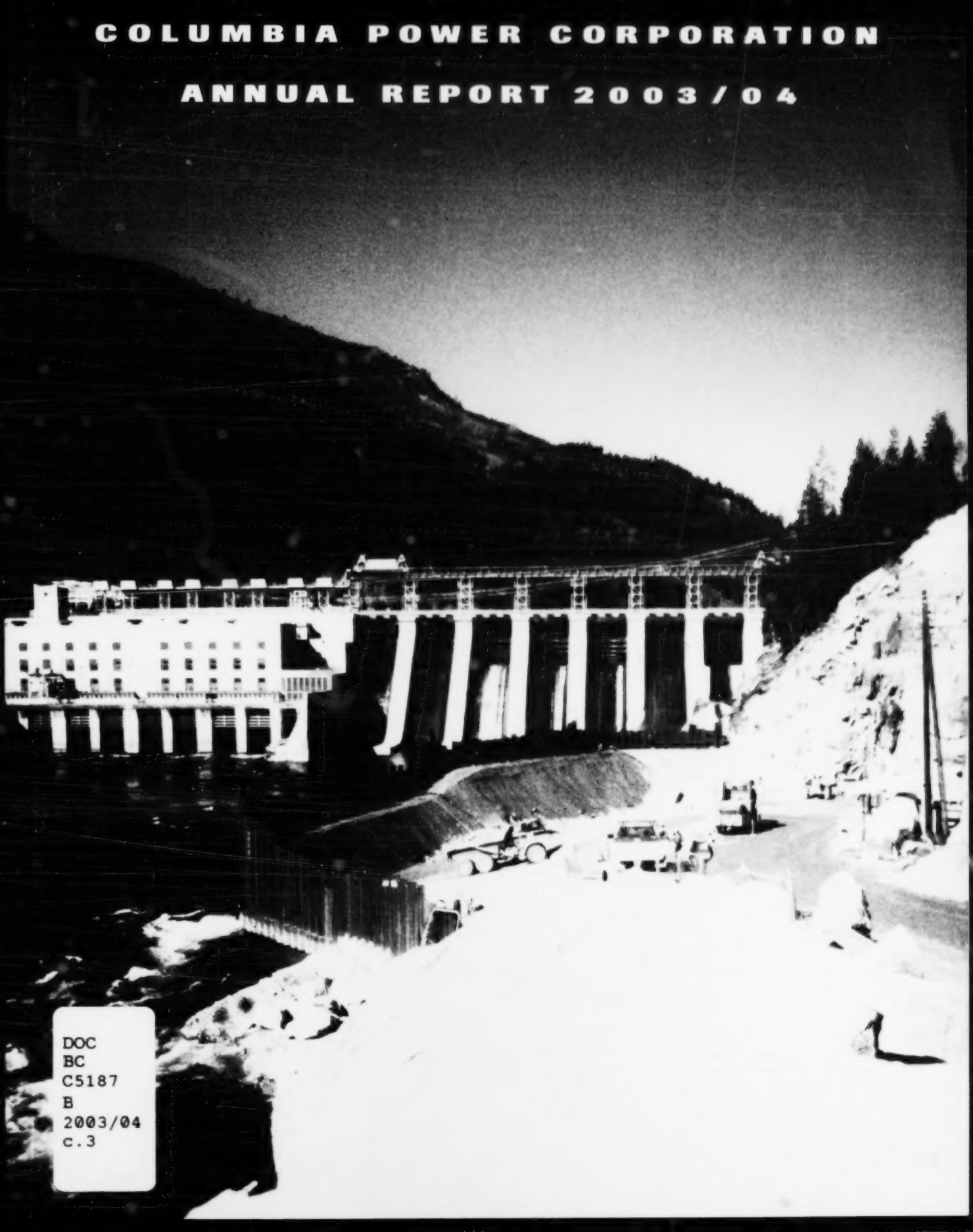
# COLUMBIA POWER CORPORATION

# ANNUAL REPORT 2003/04



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Cover photo: Brilliant Dam, with construction
of Brilliant Expansion in foreground
Castlegar, British Columbia

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COLUMBIA POWER CORPORATION

# ANNUAL REPORT • 2003/04

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## Organizational Overview

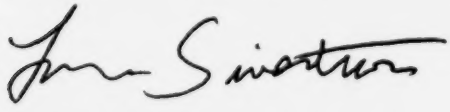
Columbia Power Corporation is a Crown corporation wholly owned and controlled by the Province of British Columbia. Its mission is to efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin. In making power project investments, the corporation's goal is to support the employment, economic development and resource management objectives of the Province and the Columbia Basin Trust, within the constraints of a commercial enterprise.

Columbia Power Corporation undertakes power projects through joint ventures with subsidiaries of the Columbia Basin Trust. The corporation is the manager of the joint ventures. Columbia Power Corporation is a small organization, with fewer than forty full-time equivalent positions, located in Castlegar and Victoria. The corporation focuses on asset management activities while engaging other firms to provide construction, plant operation and specialist consulting services. Through its joint ventures, Columbia Power Corporation is one of the largest producers of electricity in British Columbia.

The core projects of Columbia Power Corporation and the Columbia Basin Trust are the Arrow Lakes Generating Station, the Brilliant Expansion and the Waneta Expansion, all of which are located in the Columbia Basin. The joint venturers may also undertake other power generation, transmission or distribution projects in the Columbia Basin. The purchase of the Brilliant dam in 1996 was the first investment by the joint venturers. Construction of the Arrow Lakes Generating Station began in 1999, and start-up was achieved in 2002. Construction of the Brilliant Expansion began in April 2003. Environmental approval is being sought for the Waneta Expansion. All of the power generated at the current operating projects is committed under long-term sales contracts to two utilities, Aquila Networks Canada and BC Hydro.

## Accountability Statement

The 2003/04 Columbia Power Corporation Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report, including the selection of performance measures and the reported results. All significant decisions, events and identified risks, as of May 14, 2004, have been considered in preparing the report



Lorne Sivertson
President

## Message from the President

The past year has been an eventful one for Columbia Power Corporation. Our projects have advanced to various stages of planning, construction and operation, with the focus during the year being on construction of the Brilliant Expansion. In addition, our shareholder, the Province of British Columbia, announced organizational changes that will affect Columbia Power Corporation.

The Brilliant Terminal Station was completed in July 2003. This station provides a back-up transmission connection from our Arrow Lakes Generating Station to the BC Hydro Selkirk Substation. It will also tie together the Brilliant dam, Brilliant Expansion and Aquila Networks Canada facilities into a more reliable, integrated transmission system in the West Kootenays. The $25 million investment in the Brilliant Terminal Station will be recovered from charges paid by Aquila for the use of the facility.

The Brilliant Expansion is now more than one year into construction. This 120-megawatt plant will be completed in the fall of 2006. Forty percent of the power has been sold to BC Hydro for 20 years, as a component of its "green power" portfolio. Marketing efforts for the remainder of the power are progressing.

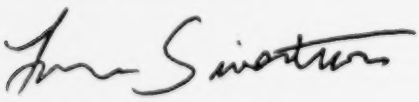
Terms of reference for the Waneta Expansion Environmental Assessment Certificate Application were submitted to federal and provincial environmental agencies during the year and have been approved. Engineering, environmental and financial studies are ongoing in order to optimize and obtain approval for the project. The start of construction is planned for 2006/07.

At the Arrow Lakes Generating Station, we have carried out many tests and warranty inspections since assuming responsibility for operation from the design-build contractor on January 1, 2003. On May 3, 2004 damage to the concrete lining of the approach channel was discovered. Power generation has been suspended while investigations are carried out and repairs made to the channel.

Following its Core Review process, the Province announced in January 2004 its intention to amalgamate Columbia Power Corporation with the energy subsidiaries of the Columbia Basin Trust as part of the restructuring of the Columbia Basin Initiative. The amalgamated company would continue to be called Columbia Power Corporation, with an independent board of directors.

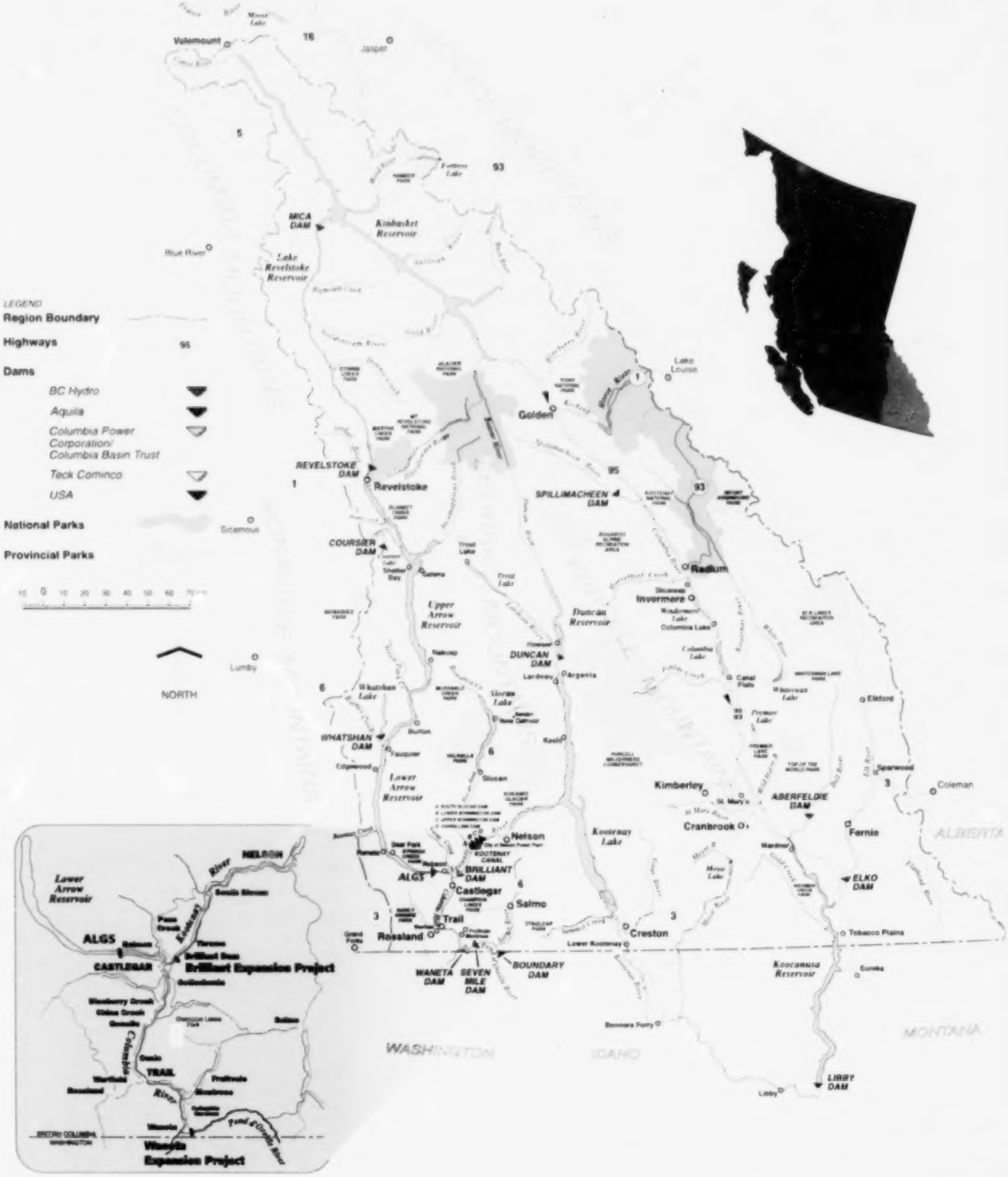
The goals of Columbia Power Corporation for 2004/05 include: securing a power sales agreement for the balance of the output from the Brilliant Expansion; submitting an application for an Environmental Assessment Certificate for the Waneta Expansion; ensuring that the Arrow Lakes Generating Station is "fit for purpose," as required by the design-build contract; keeping construction of the Brilliant Expansion on budget and on schedule; and facilitating a smooth transition to the new Columbia Power Corporation structure.

The staff of Columbia Power Corporation continue to be among the hardest working and most dedicated in the industry.



Lorne Sivertson
President

## Columbia Basin Power Projects



## The Year in Review

### 1. Power Project Planning

Through an agreement with the Columbia Basin Trust, the Province is providing $50 million a year for 10 years, starting in 1996 and ending in 2005, to be used as equity funding for power projects in the Columbia Basin. These funds are shared by Columbia Power Corporation and the Columbia Basin Trust.

Columbia Power Corporation and the Columbia Basin Trust (through its subsidiary, CBT Power Corp.) have formed the Power Project Planning Joint Venture for the purpose of assessing and advancing power projects. The joint venture is owned equally by the two partners, who direct its activities through a management committee. Columbia Power Corporation is the manager of this joint venture. When a decision is made to proceed with construction of a project, the project is transferred to a separate joint venture. Currently, the Waneta Expansion is the focus of activities of the Power Project Planning Joint Venture.

#### Waneta Expansion

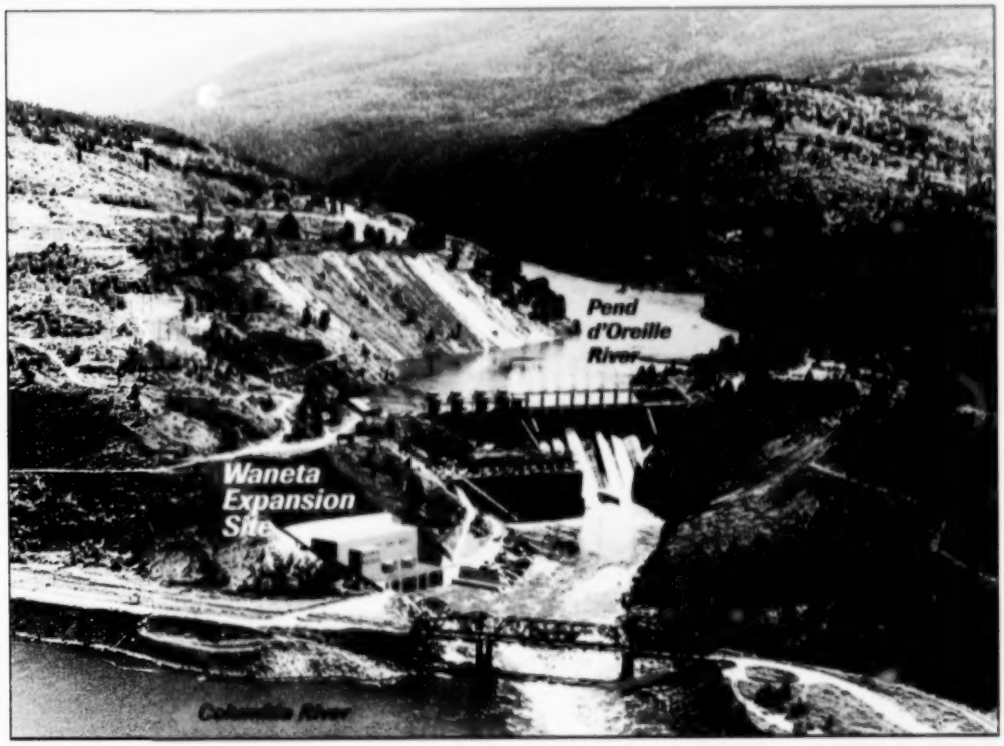
The Waneta Expansion is a proposal to install an additional powerplant at the Waneta dam, located on the Pend d'Oreille River just before its confluence with the Columbia River. This project is similar to the Arrow Lakes Generating Station and Brilliant Expansion in that it will use water otherwise being spilled at an existing facility, and will not require construction of a new dam. The resulting passage of water through turbines instead of spillways will reduce the level of dissolved gas pressure downstream, thereby improving fish habitat. The Waneta Expansion will also result in greater hydraulic balance with the larger Seven Mile and Boundary hydroelectric facilities upstream. The project includes a proposed 10-kilometre transmission line to connect the new powerplant to the BC Hydro network at the Selkirk substation, running alongside BC Hydro's Nicola-to-Selkirk 500-kilovolt transmission line.

The Waneta dam is owned by Teck Cominco Limited. The rights to undertake the expansion project were purchased by Columbia Power Corporation in 1994 and are now jointly owned with the Columbia Basin Trust. The capacity of the Waneta Expansion, which could be as high as 435 megawatts, will be determined on the basis of economic and power optimization studies, environmental considerations and water availability.

Feasibility studies to date indicate that the project is economic and able to obtain environmental permits. In 2003/04, the Terms of Reference for the project's Environmental Assessment Certificate Application were submitted and approved by the Environmental Assessment Office. Open house information sessions were held as part of the public consultation process. The Application is expected to be filed by the spring of 2005. Applications for the project's Water Licence and Crown Land Tenure for the preferred transmission line routing were filed in November 2003. In July 2003, the Province issued an Order in Council to reserve the unrecorded waters of the Pend d'Oreille River to enable Columbia Power Corporation to investigate the use of these water flows for power purposes at the Waneta site.

Negotiations on a Waneta Cooperation Agreement with Teck Cominco began during the past year and are expected to be finalized in 2004/05. The intent is to formalize the manner in which the parties will cooperate with each other in the planning, permitting, construction and operation of the Waneta Expansion.

In 2004/05, planning work will continue along a three track process. In Track I - Environmental/Regulatory, a number of activities will proceed aimed at submitting the Environmental Assessment Certificate Application in the spring of 2005. Track II - Industry Competition, will involve activities undertaken in support of the project's design-evaluate-build process, following the model used for the Arrow Lakes Generating Station and the Brilliant Expansion. This is expected to lead to information meetings with potential bidders in 2005/06. Track III - Owner's Commitments, will consist of additional work by Columbia Power Corporation in support of the first two tracks, including project co-ordination, modelling and marketing. The preliminary project schedule calls for construction to begin in 2006/07 and commercial power production to commence in 2010/11.




*Artist's rendition of Waneta dam and proposed Waneta Expansion*

## 2. Arrow Lakes Generating Station

The Arrow Lakes Generating Station is a power generation facility with a capacity of 185 megawatts, located at the Keenleyside dam on the Columbia River and connected by a 48-kilometre, 230-kilovolt transmission line to the BC Hydro power grid at the Selkirk substation. The powerplant is situated 400 metres downstream of the Keenleyside dam and is connected to the Arrow Lakes reservoir by a 1,500-metre intake channel that bypasses the dam.

Columbia Power Corporation and the Columbia Basin Trust (through its subsidiary CBT Arrow Lakes Power Development Corp.) formed a joint venture, Arrow Lakes Power Company, for the purpose of constructing and operating the project. In 2003/04, the assets of Arrow Lakes Power Company were transferred to Arrow Lakes Power Corporation, a corporation owned equally by Columbia Power Corporation and CBT Arrow Lakes Power Development Corp. and managed by Columbia Power Corporation.

The Keenleyside dam was constructed in the 1960s by BC Hydro under the terms of the Columbia River Treaty between Canada and the United States. The dam was built to regulate water flows for the purpose of providing downstream flood control and power generation benefits in the United States. Construction of the Arrow Lakes Generating Station allows power generation benefits to be realized in British Columbia by taking advantage of otherwise unutilized waterflows at the dam. As well, generation of power at the dam improves fish habitat by reducing dissolved gas pressure levels downstream.

In selecting a contractor for the construction of the powerplant, Columbia Power Corporation established the design-evaluate-build process to ensure the most cost-effective and innovative construction methods were used. Peter Kiewit Sons Co. Ltd. was selected, as the winning bidder, to design and construct the powerplant under a fixed-price contract. The proposal included Harza Engineering Ltd. as the principal design engineer and GE Hydro as the turbine and generator supplier.

Construction of the project began in March 1999. The first generating unit achieved start-up status in February 2002, followed by the second unit in May 2002. These milestones were reached on budget and ahead of schedule. The owner assumed responsibility for operation of the generating station on January 1, 2003. Operation and maintenance of the generating station is performed on behalf of the owner by Aquila Networks British Columbia. The design-build contractor's remaining work relates primarily to correction of outstanding deficiencies, completion of functional and performance tests, completion of warranty work and demobilization.

The power from the Arrow Lakes Generating Station is sold to BC Hydro for 12 years beginning January 1, 2003. Power generated before January 1, 2003 was sold to Powerex Corp. (a subsidiary of BC Hydro). Revenues from the sales to Powerex were shared with the contractor under the provisions of the design-build contract for early completion.

Net income for Arrow Lakes Power Corporation for the year ended March 31, 2004 was $10.4 million, compared to $22.8 million in the previous year. The decrease in net income was expected and was due partly to the lower power price received following the expiry of the short-term sales agreement with Powerex. Water rental expenses increased compared to the previous year, reflecting the built-in lag for billing of this charge. Operations and maintenance expenses were up, primarily because of performance testing requirements. Increased amortization expenses and interest on long-term debt were also factors in the reduced income. The amount of power sold by Arrow Lakes Power Corporation during 2003/04, as determined by the energy entitlement received under the Keenleyside Entitlement Agreement, was 726,868 megawatt-hours, compared to 663,746 megawatt-hours in the previous year.

Aquila Networks British Columbia manages the Arrow Lakes Generating Station for Arrow Lakes Power Corporation. In September 2003, Aquila Inc. announced an agreement to sell its British Columbia and Alberta utility operations to Fortis Inc. The sale of the British Columbia operations has been approved by the British Columbia Utilities Commission and is expected to be completed by June 30, 2004.

Construction of the Arrow Lakes Generating Station and transmission line was financed with equity of Columbia Power Corporation and CBT Arrow Lakes Power Development Corp. and interest-bearing advances from Columbia Power Corporation. In August 2003, Arrow Lakes Power Corporation issued $100 million of 5.39% Series A project bonds, maturing March 31, 2015. The bonds are rated A(high) by Dominion Bond Rating Services. The proceeds of the bond issue were used to refinance construction expenditures.

On May 3, 2004 damage to the concrete lining of the approach channel was discovered. Power generation at the Arrow Lakes Generating Station has been suspended while investigations are underway and repairs are made to the channel. The financial impact of the damage has not been determined. However, Arrow Lakes Power Corporation is taking all necessary steps - including pursuing its remedies under the design-build contract and its insurance policies and preserving its available sources of working capital - to ensure that its obligations to creditors and regulators will be satisfied.

Construction of a new transmission terminal station at the nearby Brilliant powerplant was completed in July 2003. This new facility, owned by Brilliant Power Corporation, allows interconnection between the Aquila transmission system and the Arrow Lakes transmission line, thereby providing a back-up transmission route for the Arrow Lakes Generating Station and improving electric power reliability in the region. The connection of the new terminal station to the Arrow Lakes transmission line was completed in April 2004.

**Arrow Lakes Generating Station Operations**
**Summary Information**
($ in thousands unless otherwise stated)

| | 2003/04 | 2002/03 | 2001/02 |
|---|---|---|---|
| Total Sales (megawatt-hours) | 726,868 | 663,746 | 9,651 |
| Average Price ($/megawatt-hour) | 36.59 | 93.39 | 104.13 |
| Sales Revenue | $ 26,597 | $ 61,990 | $ 1,005 |
| Power Sales Revenue Sharing | $ - | $ 29,779 | $ 336 |
| Operating Expenses | $ 3,255 | $ 2,338 | $ 51 |
| Taxes and Water Rentals | $ 3,009 | $ 812 | $ 45 |
| Interest Expense | $ 3,197 | $ 474 | $ 108 |
| Amortization | $ 8,653 | $ 5,764 | $ 77 |
| Net Income | $ 10,428 | $ 22,823 | $ 388 |
| Equity | $ 258,847 | $ 276,176 | $ 232,338 |
| Annual Return on Equity | 3.9% | 9.0% | 0.2% |
| Dividend Payments | $ 4,290 | $ - | $ - |
| Capital Expenditures | $ 2,343 | $ 20,686 | $ 93,592 |
| Long-term Debt | $ 92,277 | $ - | $ - |
| Current Portion of Long-term Debt | $ 6,466 | $ - | $ - |
| Advance from Columbia Power Corporation | $ - | $ 31,834 | $ 61,199 |

*Arrow Lakes Generating Station*

## 3. Brilliant Dam and Powerplant

The Brilliant dam and powerplant were purchased from Cominco Ltd. (now known as Teck Cominco Limited) in 1996. Ownership and operation of the facility has been undertaken through Columbia Basin Power Company, an unincorporated joint venture between Columbia Power Corporation and CBT Power Corp., a subsidiary of the Columbia Basin Trust. The joint venture is owned equally by the two partners, who direct the company through a management committee, with Columbia Power Corporation as the manager. The company's operations are guided by its obligations under the 60-year Brilliant Power Purchase Agreement with Aquila Networks Canada (formerly known as West Kootenay Power Ltd.) and agreements with the company's bondholders. The facility is operated by Aquila on behalf of the company. The company has largely completed a multi-year capital program, including upgrades and life extension work for each of the four generating units.

Net income for Columbia Basin Power Company for the year ended March 31, 2004 was $6.6 million, compared to $5.5 million in the previous year. The increase in income was a result of escalation of power sales revenues and additional generation from upgraded turbines, as well as revenue attributable to the newly completed Brilliant Terminal Station.

The amount of power sold by Columbia Basin Power Company during the period, as determined by the Brilliant energy entitlement received under the Canal Plant Agreement, was 975,182 megawatt-hours, compared to 822,739 megawatt-hours in the previous year. With all four upgrades and related life extension projects completed in November 2002, the output of the powerplant has been increased by 20 megawatts of capacity and 125 gigawatt-hours of annual energy. The upgrade program consisted of installation of new turbine runners in each generating unit and related work. The life extension program included: refurbishment of generator rotors; rewinding of generator stators; and replacement of generator transformers, exciters, generator cables, turbine governors, bushings, unit instrumentation and protection and control equipment. The cost of the upgrade and life extension work will be recovered through the Brilliant Power Purchase Agreement.

Capital expenditures during the year were $24.2 million, most of which were payments for the Brilliant Terminal Station. Capital expenditures are expected to total $12.4 million over the next three years, reflecting the reduced need for improvements following the completion of the upgrade and life extension program.

Current capital expenditures are being funded by equity from Columbia Power Corporation and CBT Power Corp. and by repayable interest-bearing advances from related companies. A credit facility with the Canadian Imperial Bank of Commerce is also available to provide funding. The company plans to issue Series C bonds in 2004 to refinance these expenditures. The credit rating for Brilliant bonds was upgraded to A(high) by Dominion Bond Rating Service and A1 by Moody's Investors Service in August 2001.

Construction of the Brilliant Terminal Station was completed in July 2003. This new facility, located adjacent to the Brilliant dam, was constructed for Columbia Basin Power Company by Aquila Networks Canada, who are also the facility operators. It provides a connection from the Brilliant powerplant to Aquila Networks Canada's transmission system and to the transmission line owned by Arrow Lakes Power Corporation. It will also be connected to the Brilliant Expansion. The $25 million cost of the Brilliant Terminal Station will be recovered through charges paid by Aquila Networks Canada for the use of the facility.

On April 1, 2004 the assets of Columbia Basin Power Company were transferred to Brilliant Power Corporation, formerly known as Brilliant Power Funding Corporation and jointly owned by Columbia Power Corporation and CBT Power Corp. Prior to the reorganization, Brilliant Power Corporation held title to the Brilliant dam as agent and nominee for Columbia Basin Power Company.

**Brilliant Dam and Powerplant**
**Summary Information**

($ in thousands unless otherwise stated)

| | 2003/04 | 2002/03 | 2001/02 | 2000/01 | 1999/00 |
|---|---|---|---|---|---|
| Total Sales (megawatt-hours) | 975,182 | 822,739 | 854,492 | 793,270 | 845,323 |
| Average Price ($/megawatt-hour) | 30.32 | 33.19 | 28.72 | 27.89 | 25.23 |
| Power Sales Revenue | $ 29,563 | $ 27,310 | $ 24,554 | $ 22,123 | $ 21,329 |
| Brilliant Terminal Station Revenue | $ 1,567 | $ - | $ - | $ - | $ - |
| Interest Revenue | $ 282 | $ 300 | $ 386 | $ 860 | $ 410 |
| Operating Expenses | $ 2,413 | $ 2,089 | $ 1,868 | $ 1,549 | $ 1,790 |
| Taxes and Water Rentals | $ 5,984 | $ 5,798 | $ 5,885 | $ 6,018 | $ 6,290 |
| Interest Expense | $ 11,612 | $ 10,368 | $ 9,765 | $ 9,143 | $ 8,716 |
| Amortization | $ 4,841 | $ 3,821 | $ 3,279 | $ 2,593 | $ 2,450 |
| Net Income | $ 6,562 | $ 5,534 | $ 4,143 | $ 3,680 | $ 2,492 |
| Equity | $ 66,966 | $ 58,836 | $ 53,642 | $ 50,821 | $ 45,405 |
| Annual Return on Equity | 10.4% | 9.8% | 7.9% | 7.6% | 5.5% |
| Distribution to Joint Venturers | $ 8,530 | $ 6,250 | $ 4,950 | $ 3,500 | $ 3,450 |
| Capital Expenditures | $ 24,174 | $ 18,681 | $ 17,954 | $ 21,915 | $ 4,116 |
| Long-term Debt | $ 114,524 | $ 116,384 | $ 118,096 | $ 91,556 | $ 92,577 |
| Current Portion of Long-term Debt | $ 1,858 | $ 1,712 | $ 1,580 | $ 1,021 | $ 935 |
| Advance from Related Corporations | $ 42,439 | $ 23,921 | $ 9,674 | $ 26,556 | $ 11,977 |
| Debt Service Coverage Ratio | 1.67 | 1.63 | 1.55 | 1.51 | 1.41 |

## 4. Brilliant Expansion

The Brilliant Expansion project consists of the construction of a new power generation facility adjacent to the existing Brilliant dam on the Kootenay River. The objective of the project is to take advantage of the hydraulic potential at the Brilliant dam by making use of the seasonal water flow that would otherwise be spilled.

The project includes a short open channel leading to an intake structure, a power tunnel and a surface powerhouse. Tailrace improvements will be undertaken to provide additional power benefits. The construction and operation of the project will be undertaken by Brilliant Expansion Power Corporation, a corporation jointly owned by Columbia Power Corporation and CBT Brilliant Expansion Power Corp. Columbia Power Corporation is the manager of the jointly owned corporation.

The Brilliant Expansion will have a capacity of 120 megawatts, generating approximately 500 gigawatt-hours of energy annually. The construction budget has been set at $205 million. Employment during construction is expected to be approximately 400 person-years plus indirect jobs.

The project will be connected to the transmission grid by a 410-metre line to the Brilliant Terminal Station, located uphill from the Brilliant dam. The project will be connected to BC Hydro's Selkirk substation through the Arrow Lakes transmission line, and to the Aquila Networks Canada transmission system.

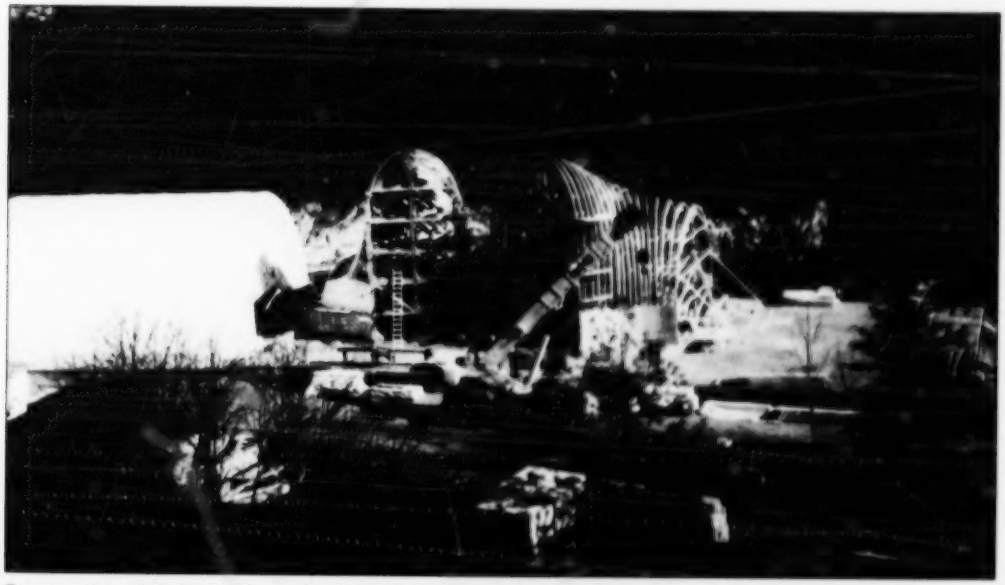
The Brilliant Expansion is being developed using Columbia Power Corporation's design-evaluate-build strategy, as successfully applied in the development of the Arrow Lakes Generating Station. This approach was chosen to ensure the most cost-effective construction methods are used for the project, while transferring most of the construction risk to the contractor.

*Artist's rendition of Brilliant dam and proposed Brilliant Expansion*

Expressions of interest were received from three international teams of construction, engineering and turbine supply firms, two of which submitted proposals in July 2002. These were reviewed and scored by an expert technical evaluation panel, and then ranked on the basis of that score and the proposal price. This resulted in the selection of the Brilliant Expansion Consortium as the winning bidder, formed by SNC-Lavalin Inc. and a joint venture of Skanska International Civil Engineering AB and Chant Construction Limited, with Alstom Canada as the turbine/generator supplier. A design-build contract was signed in February 2003. Construction of the project access road began in April 2003. Substantial completion of the project is scheduled for September 2006.

During the past year, Brilliant Expansion Power Corporation successfully participated in BC Hydro's Green Power Generation Request for Proposals. As a result, forty per cent of the output of the project has been sold to BC Hydro under a twenty-year sales agreement. Marketing for the remainder of the project output is continuing.

In addition to the economic impacts of the project, the Brilliant Expansion will create significant environmental benefits. It will improve fish habitat by reducing the amount of total gas pressure downstream of the dam, and will displace approximately 400,000 tonnes annually of greenhouse gas that would otherwise be produced by fossil-fueled electricity projects. The project has been endorsed by nine US agencies including the Environmental Protection Agency.



*Construction of draft tube forms for the Brilliant Expansion*

## Community Sponsorship

In keeping with its commitment to translate power project investments into benefits for Columbia Basin residents, Columbia Power Corporation provides sponsorship funding for community services, regional events and scholarships and bursaries in the Columbia Basin.

### Community Services:

Examples of sponsorship in the past year:

- Hiking trail improvements and developments
- Community festivals
- Hospital foundations
- Youth events
- Local sporting events
- Community cultural events
- Wildlife groups
- Search and Rescue programs
- Upgrades to community parks

### Regional Events:

Examples of regional events partially sponsored by Columbia Power Corporation:

- Kaslo Jazz Festival
- Upper Columbia White Sturgeon Recovery Initiative juvenile sturgeon release
- Selkirk College Foundation fundraiser

### Scholarships and Bursaries:

Columbia Power Corporation provides scholarships to graduating classes of all 23 secondary schools in the Columbia Basin. It also makes bursaries available to students enrolled at the three post-secondary institutions in the Columbia Basin: the College of the Rockies, the Kootenay School of the Arts and Selkirk College.

## Report on Performance Measures

Performance measures reported for 2003/04 are as established in Columbia Power Corporation's Service Plan for 2003/04 - 2005/06, modified for consistency with the Service Plan for 2004/05 - 2006/07. Performance planning and reporting continues to be refined as plant operating activities are expanded and reliable benchmarks become available. The Service Plan can be found at Columbia Power Corporation's website: www.columbiapower.org.

| Performance Measure | Definition | Benchmark | 2003/04 Target | 2003/04 Result |
|---|---|---|---|---|
| **1. Development of Projects on Time** | | | | |
| 1.1 Variance in project development time to start-up | Variance between expected and actual start-up dates | ALGS: 7 months early | Variance less than or equal to zero, indicating an approved project has achieved commercial start-up on time or early | BTS: Construction completed on time |
| **2. Development of Projects on Budget** | | | | |
| 2.1 Variance from project budgets | Variance between project development costs incurred and approved budget | ALGS: On budget | Variance less than or equal to zero, indicating an approved project has achieved commercial start-up on or under budget | BTS: Contruction completed on budget |
| **3. Effective Construction Management** | | | | |
| 3.1 Unresolved deficiency ratio | Ratio of value of unresolved material deficiencies to liquidated damages at Final Acceptance Date | Baseline information to be developed | Less than or equal to 1, indicating that the value of any unresolved material deficiencies is offset by the value of liquidated damages | BTS: No unresolved deficiencies |
| **4. Reliable Plant Operations** | | | | |
| 4.1 Energy entitlement ratio | Actual energy entitlements divided by maximum energy entitlements, by project | Canadian Electricity Association Benchmark: Hydraulic Weighted Capability Factor 2002 value = 91% | Greater or equal to 95%, indicating that planned and unplanned plant outages do not result in more than a 5% reduction in energy entitlements for the year | ALGS: 94%[1] BRD: 99% |
| **5. Acceptable Return on Equity** | | | | |
| 5.1 Return on equity | Consolidated net income divided by equity (contributed surplus plus retained earnings) | Over the life of the projects, comparable to regulated utilities | 1.8% | 2.8%[2] |
| 5.2 Return on assets in service | Consolidated net income divided by assets in-service | Over the life of the projects, comparable to regulated utilities | 2.0% | 3.3%[3] |

| Performance Measure | Definition | Benchmark | 2003/04 Target | 2003/04 Result |
|---|---|---|---|---|
| **6. Project Cost Competitiveness** | | | | |
| 6.1 Equilibrating natural gas price | Plant-gate price of natural gas at which the levelized cost of energy for a CPC/CBT project and a new CCGT power plant are equal | Current provincial forecasts are consistent with natural gas plant-gate prices of C$4.50 to $6.00 per GJ | ALGS: C$3.50 per GJ<br>BRX: C$4.00 per GJ | ALGS: C$ 3.50 per GJ<br>BRX: C$4.00 per GJ |
| **7. Investment Grade, Non-Tax Supported, Credit Ratings** | | | | |
| 7.1 Bond rating | Project bond ratings as set by DBRS and/or Moody's Investor Service | Investment Grade bond rating | Maintain or improve current investment grade bond ratings:<br>BRD Series A and B Bonds: DBRS A (high), Moody's A1<br>ALGS Series A Bonds: DBRS A (high) | Maintained ratings for all bonds |
| 7.2 Debt service coverage ratio | Project net income plus interest and amortization of assets, divided by debt service payments for project with a bond rating | Industry benchmark for Investment grade bond rating: greater than or equal to 1.3 | 1.5 | 1.7 [4] |
| 7.3 Capital Structure | Consolidated debt and equity, each divided by debt plus equity, expressed as a ratio of debt to equity | CEA overall Composite Performance Measure for 2002: 74:26 | 30:70 | 26:74 [5] |
| **8. Cost Efficient Joint Venture Management** | | | | |
| 8.1 OMA unit cost for assets in-service | OMA costs divided by electricity entitlement, in $ per Mwh | Baseline information to be developed | ALGS: $3.24 per MWh<br>BRD: $2.14 per MWh | ALGS: $3.84 per MWh [6]<br>BRD: $1.90 per MWh |
| 8.2 Manager's employee cost per unit | CPC's salary and benefit costs divided by electricity entitlements for all projects | Baseline information to be developed | $2.00 per MWh | $1.87 per MWh |

| Performance Measure | Definition | Benchmark | 2003/04 Target | 2003/04 Result |
|---|---|---|---|---|
| **9. Employee Productivity** | | | | |
| 9.1 Revenue per employee | Consolidated revenue divided by FTEs at year end | CEA composite average for 2002: $494,000 | $877,000 | $810,000 [7] |
| 9.2 Employee training | Total training hours divided by FTEs | Baseline information to be developed | 35 | 37 |
| **10. Environmental Compliance** | | | | |
| 10.1 Compliance with environmental requirements | Number of notices from regulatory agencies of environmental non-compliance | Baseline information to be developed | Zero material non-compliance notices | Zero material non-compliance notices |
| **11. Economic Contributions** | | | | |
| 11.1 Net income | Consolidated revenues less expenses | - | $5.2 million | $8.3 million [8] |
| 11.2 Employment creation | Cumulative direct employment creation, in person years | - | 1,210 | 1,226 |

**Definitions:**

ALGS - Arrow Lakes Generating Station
BRD - Brilliant Facility
BTS - Brilliant Terminal Station
CEA - Canadian Electricity Association
CCGT - Combined Cycle Gas Turbine
GJ - Giga joule
DBRS - Dominion Bond Rating Service
OMA - Operations, maintenance and administration
MWh - Megawatt hour
FTE - Full-time equivalent

**Explanatory Notes:**

1 Outages at ALGS were higher than normal due to performance testing requirement
2 Return on equity benefited from deferral of borrowing and favourable short-term interest rates
3 Return on assests-in-service benefited from deferral of borrowing and favourable short-term interest rates
4 Debt service coverage ratio benefited from favourable short-term interest rates
5 Capital structure result reflects lower than planned borrowing
6 Higher unit costs reflect higher testing costs and lower output at ALGS
7 Revenue per employee result reflects revenues slightly below target and FTE's slightly above target
8 Favourable net income result reflects deferred borrowing and favourable interest rates

## Management Discussion and Analysis

### Results of Operations

Net income earned by Columbia Power Corporation in 2003/04 was $8.3 million, compared to $13.4 million the previous year. The decrease in net income was expected, and is attributable to a combination of events at the Arrow Lakes Generating Station. Factors at the Arrow Lakes Generating Station contributing to the reduced income included: the lower price received for power sales; higher water rental expenses, reflecting the built-in lag for billing of this charge; higher operations and maintenance expenses, primarily due to performance testing requirements; increased amortization expenses; and interest on long-term debt. Partly offsetting the results at Arrow Lakes were higher earnings from the sale of power from the Brilliant powerplant, new transmission facility earnings and a reduction in the amount of development costs expensed. Income from Brilliant has grown since the purchase of the dam as a result of several factors: the fixed escalator applied to a portion of the revenues; incremental revenues resulting from the investment in sustaining capital, turbine upgrade and Brilliant terminal station expenditures; and sales of incremental energy attributable to the upgrade program. Low short-term borrowing rates during the year also enhanced Columbia Power Corporation's income. Earnings were not impacted by fluctuations in electricity markets, as prices for the company's output were set by contracts put in place previously. Net income of Columbia Power Corporation includes 50% of the income of the power project joint ventures.

During 2003/04, Columbia Power Corporation's return on equity decreased to 2.8% from 4.7% the previous year, reflecting lower net income from the Arrow Lakes Generating Station and substantial equity provided for the Brilliant Expansion project. The corporation's return on equity will increase over time as projects now under development enter the operating phase and begin to earn income following intensive capital spending during construction.

The return on equity for projects in service decreased to 5.1% in 2003/04 from 9.1% the previous year, reflecting the lower income from Arrow Lakes Generating Station, offsetting steadily increasing income from the Brilliant powerplant and terminal station.

Columbia Power Corporation used its undistributed cash earned from power projects to partially finance power project capital costs and pay for corporate asset additions. The corporation declared a dividend of $2 million for 2003/04. Future dividends will be determined based on annual cash earnings, Arrow Lakes Generating Station approach channel repair cash requirements, working capital requirements, reserves for future capital replacement and new power project investment opportunities.

Capital spending during the year was $50.5 million, compared to $26.6 million in the prior year. Almost all of this expenditure was invested in power projects undertaken jointly with the Columbia Basin Trust, and represents Columbia Power Corporation's 50% portion of joint venture capital spending. The major area of expenditure was construction of the Brilliant Expansion, followed by additions to the Brilliant power facility and terminal station and the Arrow Lakes Generating Station. The Brilliant upgrade and life extension program is essentially complete. A small amount of capital was invested in project development activities for the Waneta Expansion. These investments were funded by contributions from the Province, issuance of Arrow Lakes Power Corporation long-term bonds, short-term borrowing and cash from operations. Sufficient capital was available from these sources to allow Columbia Power Corporation to repay its short term loans. Columbia Power Corporation provided interest-free advances to the Columbia Basin Trust for its share of joint venture equity investments.

## Outlook and Risks

The major source of short-term operational uncertainty for Columbia Power Corporation is the damage to the approach channel at the Arrow Lakes Generating Station. Damage to the concrete lining of the approach channel was discovered on May 3, 2004, causing power generation to be suspended while investigations into the source of the damage are undertaken and repairs are made. Although the financial impact of the damage cannot be determined at this time, Arrow Lakes Power Corporation is taking all necessary steps - including pursuing its remedies under the design-build contract and its insurance policies and preserving its available sources of working capital - to ensure that its obligations to creditors and regulators will be satisfied.

Subject to resolution of the Arrow Lakes Generating Station channel problem, Columbia Power Corporation's outlook for the future is for stable earnings growth. At both the Brilliant facility and terminal station and the Arrow Lakes Generating Station, prices are fixed by long-term contracts and are not impacted by changes in power markets. Entitlement agreements with BC Hydro provide firm amounts of power regardless of actual water flows, thereby eliminating hydrology risk. Interest costs for projects in operation are fixed through the issue of long-term bonds. At Brilliant, earnings stability is further enhanced by the cost-of-service nature of the power sales agreement. Although the sales contract for the Arrow Lakes Generating Station does not have this feature, operating costs at Arrow Lakes are low relative to revenues, as is typical in a hydroelectric generating plant.

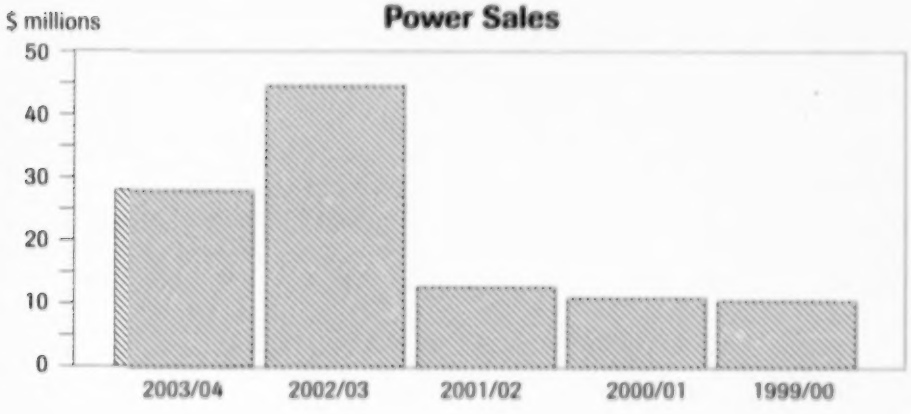
The construction program for the Brilliant Expansion will run for the next two and a half years. The fixed-price nature of the contract and built-in performance guarantees have the effect of transferring most of the construction risk to the contractor. It is expected that an entitlement agreement will be in place for the Brilliant Expansion, which will remove hydrology risk. With 40% of the plant output sold under a long-term contract with BC Hydro, Columbia Power Corporation is pursuing opportunities to enter into sales agreements for the remaining plant output prior to completion of construction. Columbia Power Corporation plans to finance the completion of the Brilliant Expansion with the proceeds of the Brilliant C bond issue in the fall of 2004 and the remaining $50 million equity contribution from the Province, in addition to proceeds from the Arrow Lakes Series A bond issue in 2004. The nature of the sales arrangements put in place for the Brilliant Expansion will affect the ability to raise financing at project completion, which in turn will affect the availability of funds for the construction of the Waneta Expansion.

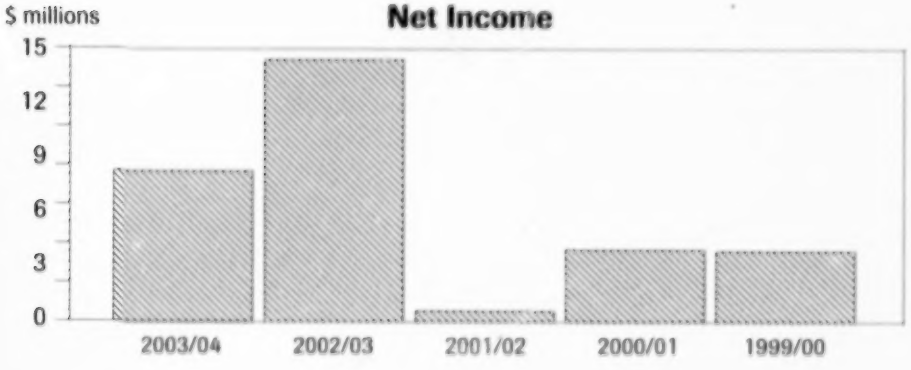
Factors that could affect the rate of return on the Brilliant Expansion and the development of the Waneta project include power market developments, interest and exchange rate movements, payments to government and access to transmission systems. The Province's recently announced energy plan will support the development of Columbia Power Corporation's projects by providing greater access to the transmission system and improving the ability of non-utility generators to sell power directly to large customers.

## Key Financial Comparatives

($ in thousands)

| | 2003/04 | 2002/03 | 2001/02 | 2000/01 | 1999/00 |
|---|---|---|---|---|---|
| Power Sales | $ 28,081 | $ 44,650 | $ 12,781 | $ 11,071 | $ 10,665 |
| Interest and Other Earnings | $ 1,892 | $ 700 | $ 711 | $ 2,811 | $ 3,730 |
| Net Income | $ 8,262 | $ 13,438 | $ 550 | $ 3,716 | $ 3,641 |
| Dividend Payments | $ 2,000 | $ 2,000 | $ 2,000 | $ 3,000 | $ - |
| Capital Assets and Deferred Costs | $ 330,852 | $ 287,296 | $ 266,148 | $ 210,005 | $ 174,402 |
| Short-Term Debt | $ - | $ 47,254 | $ 63,491 | $ 20,343 | $ - |
| Long-Term Debt | $ 107,664 | $ 59,049 | $ 59,839 | $ 46,288 | $ 46,756 |
| Equity | $ 299,673 | $ 293,411 | $ 287,011 | $ 288,461 | $ 225,796 |
| Capital and Deferred Spending | $ 50,460 | $ 26,601 | $ 58,999 | $ 63,095 | $ 26,225 |
| Debt to Equity Ratio | 26:74 | 27:73 | 30:70 | 19:81 | 17:83 |



# COLUMBIA POWER CORPORATION

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED MARCH 31, 2004

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# COLUMBIA POWER CORPORATION

## CONSOLIDATED FINANCIAL STATEMENTS

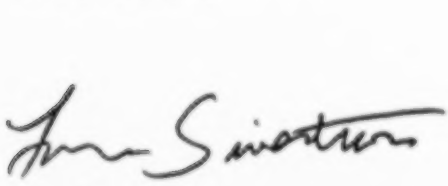
FOR THE YEAR ENDED MARCH 31, 2004

### Statement of Management Responsibility

The consolidated financial statements of Columbia Power Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles and fairly present Columbia Power Corporation's consolidated financial position and results of operations. The integrity of the information presented in the consolidated financial statements, including estimates and judgments relating to matters not concluded by fiscal year end, is the responsibility of management.

Management is responsible for establishing and maintaining appropriate systems of internal control, policies and procedures which are designed to provide reasonable assurance that Columbia Power Corporation's assets are safeguarded and that reliable financial records are maintained.

The Auditor General of British Columbia has been appointed by management to audit the consolidated financial statements. The report of the Auditor General of British Columbia is attached, outlining the scope of his examination and providing his opinion on the consolidated financial statements.



Lorne Sivertson
President

Randall G. Smith
Comptroller

May 14, 2004

# Report of the Auditor General of British Columbia

*To the Shareholder of Columbia Power Corporation, and*

*To the Minister of Energy and Mines,*
*Province of British Columbia:*

I have audited the consolidated balance sheet of Columbia Power Corporation as at March 31, 2004 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Columbia Power Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

*Victoria, British Columbia*
*May 14, 2004*

Wayne Strelioff, FCA
Auditor General

## COLUMBIA POWER CORPORATION

### CONSOLIDATED BALANCE SHEET

**AS AT MARCH 31**
($ in thousands)

| | 2004 | 2003 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and temporary investments (Note 3) | $ 30,306 | $ 16,493 |
| Accounts receivable and unbilled revenue | 5,919 | 5,322 |
| Inventories (Note 4) | 1,043 | 1,103 |
| Prepaid expenses and deposits | 1,491 | 1,259 |
| | 38,759 | 24,177 |
| **Capital assets** (Note 5) | 243,647 | 235,336 |
| **Other assets** | | |
| Due from joint venture partner (Note 6) | 50,000 | 102,876 |
| Hydroelectric power expansion rights (Note 7) | 25,925 | 25,925 |
| Deferred costs (Note 8) | 50,926 | 14,767 |
| Power sales right (Note 9) | 10,354 | 11,268 |
| Deferred debt issue costs (Note 10) | 2,702 | 605 |
| | 139,907 | 155,441 |
| | $ 422,313 | $ 414,954 |

*The accompanying notes are an integral part of the financial statements*

APPROVED ON BEHALF OF THE BOARD:

Director

Director

## COLUMBIA POWER CORPORATION

### CONSOLIDATED BALANCE SHEET

**AS AT MARCH 31**
($ in thousands)

| | 2004 | 2003 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 9,356 | $ 10,591 |
| Short-term loan | - | 47,254 |
| Dividend payable | 2,000 | 2,000 |
| Interest payable on long-term bonds | 2,768 | 1,656 |
| Current portion of long-term bonds (Note 13) | 4,163 | 857 |
| Due to related parties | 226 | 344 |
| | 18,513 | 62,702 |
| **Deferred revenue** | 626 | 649 |
| **Long-term bonds** (Note 13) | 103,501 | 58,192 |
| **Equity** | | |
| Contributed surplus (Note 16) | 276,065 | 276,065 |
| Retained earnings | 23,608 | 17,346 |
| | 299,673 | 293,411 |
| | $ 422,313 | $ 414,954 |

*The accompanying notes are an integral part of the financial statements*

## COLUMBIA POWER CORPORATION

### CONSOLIDATED STATEMENT OF INCOME

### FOR THE YEAR ENDED MARCH 31
($ in thousands)

| | 2004 | 2003 |
|---|---|---|
| **REVENUES** | | |
| Sale of power | $ 28,081 | $ 44,650 |
| Transmission facility revenue | 784 | - |
| Interest | 584 | 271 |
| Management fee | 524 | 429 |
| | 29,973 | 45,350 |
| **EXPENSES** | | |
| Water rentals | 3,531 | 2,395 |
| Amortization of capital assets in service | 5,932 | 4,887 |
| Amortization of power sales right | 914 | 108 |
| Property tax | 960 | 855 |
| Operations and maintenance | 1,384 | 1,128 |
| Provision for BC corporation capital tax | 6 | 49 |
| Administration and management | 1,572 | 1,224 |
| Insurance | 513 | 394 |
| Community sponsorship | 72 | 75 |
| Development costs expensed | 19 | 548 |
| Loss on disposal of fixed assets | 58 | - |
| Power sales revenue sharing | - | 14,890 |
| | 14,961 | 26,553 |
| **INCOME FROM OPERATIONS** | 15,012 | 18,797 |
| **FINANCE CHARGES** | | |
| Interest on project bonds | 6,530 | 5,015 |
| Bank charges and interest | 80 | 318 |
| Amortization of deferred debt issue costs | 140 | 26 |
| | 6,750 | 5,359 |
| **NET INCOME FOR THE YEAR** | $ 8,262 | $ 13,438 |

*The accompanying notes are an integral part of the financial statements*

## COLUMBIA POWER CORPORATION

### CONSOLIDATED STATEMENT OF RETAINED EARNINGS

### FOR THE YEAR ENDED MARCH 31
($ in thousands)

| | | 2004 | | 2003 |
|---|---|---|---|---|
| **RETAINED EARNINGS - beginning of year** | $ | 17,346 | $ | 5,908 |
| **Add:** Net income | | 8,262 | | 13,438 |
| **Deduct:** Dividend declared | | (2,000) | | (2,000) |
| **RETAINED EARNINGS - end of year** | $ | 23,608 | $ | 17,346 |

*The accompanying notes are an integral part of the financial statements*

## COLUMBIA POWER CORPORATION

### CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED MARCH 31**
($ in thousands)

| | 2004 | 2003 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net income for the year | $ 8,262 | $ 13,438 |
| Adjustments to reconcile cash flow from operations: | | |
| Amortization of capital assets in service | 5,932 | 4,887 |
| Amortization of deferred debt issue costs | 140 | 26 |
| Amortization of power sales right | 914 | 108 |
| Development costs expensed | - | 458 |
| Loss on disposal of fixed assets | 58 | - |
| Net change in non-cash working capital balances | (1,032) | 4,833 |
| | 14,274 | 23,750 |
| **FINANCING ACTIVITIES:** | | |
| Issue of Series A Arrow Lakes Project Bonds | 50,000 | - |
| Proceeds of short-term loans | - | 33,763 |
| Repayment of short-term loans | (47,254) | (50,000) |
| Dividends paid | (2,000) | (2,000) |
| Deferred debt issue costs | (2,237) | (36) |
| Principal repayment of Project Bonds | (1,386) | (790) |
| | (2,877) | (19,063) |
| **INVESTING ACTIVITIES:** | | |
| Repayment from joint venture partner | 52,876 | 32,561 |
| Deferred costs | (37,314) | (6,853) |
| Additions to Brilliant power facility and terminal station | (11,894) | (9,325) |
| Additions to ALGS power facility | (1,140) | (10,240) |
| Purchase of furniture, equipment, vehicles and land | (112) | (183) |
| | 2,416 | 5,960 |
| **INCREASE IN CASH AND EQUIVALENTS** | 13,813 | 10,647 |
| **CASH AND EQUIVALENTS - BEGINNING OF YEAR** | 16,493 | 5,846 |
| **CASH AND EQUIVALENTS - END OF YEAR** | $ 30,306 | $ 16,493 |
| **CASH AND EQUIVALENTS CONSISTS OF:** | | |
| Restricted cash and temporary investments | 9,812 | 9,576 |
| Cash and temporary investments available for operations | 20,494 | 6,917 |
| | $ 30,306 | $ 16,493 |

*The accompanying notes are an integral part of the financial statements*

## 1. Columbia Power Corporation

### (a) Structure and Financing

Columbia Power Corporation (CPC) is wholly owned by the Province of British Columbia. As an agent for the Province, CPC is committed to entering into joint ventures to develop hydroelectric power projects as set out in the Agreement signed in 1995 (the Agreement) between the Province and the Columbia Basin Trust (the Trust), also wholly owned by the Province.

The Agreement anticipates that several power projects will be undertaken through joint ventures between CPC and subsidiaries of the Trust (the Venturers). The cost of all projects under consideration is expected to exceed $1 billion. Under the Agreement between the Province and the Trust, the Province committed to make $500 million in capital contributions for the purpose of funding capital costs of power projects, with the remaining capital costs to be financed through joint venture borrowings by CPC and the Trust's subsidiaries.

The Venturers each hold a 50% interest in the joint ventures and direct their activities through Management Committees with an equal number of members appointed by each Venturer. All decisions of the Management Committees require the unanimous approval of their members.

CPC is appointed the Manager of the joint ventures with the authority, subject to the direction of the Joint Venture Management Committees, as well as annual capital and operating budgets approved by the Committees, to manage the day-to-day activities. CPC's material transactions and agreements require the approval of the Province's Treasury Board.

### (b) Power Project Planning

In 1996, CPC and CBT Power Corp. (CBT Power), a subsidiary of CBT Energy Inc. (CBT Energy), a subsidiary of the Trust, entered into the Power Project Planning Joint Venture (PPPJV) Agreement. Under this Agreement, the parties formed an unincorporated joint venture, primarily for the purpose of assessing and determining the feasibility of power projects pursuant to the Agreement between the Province and the Trust.

The Agreement provides for the Venturers to conduct work on specific power projects up to the date that an existing project is acquired, construction has commenced on a new project, or a project is no longer feasible or is abandoned. Prior to a project's acquisition or commencement of construction, approval must be received from the Directors of both CPC and the Trust. The project must also meet financial viability tests consistent with those of a commercial lender. When a project is acquired, or project construction is commenced, the project is to be transferred to a separate joint venture.

### (c) Brilliant Power Facility and Brilliant Terminal Station

In 1996, CPC and CBT Power entered into the Columbia Basin Power Company (CBPC) Joint Venture Agreement. Under this Agreement, the parties formed an unincorporated joint venture for the purpose of acquiring and operating the Brilliant power facility and related assets.

Brilliant Power Corporation (formerly known as Brilliant Power Funding Corporation) was established to hold legal title to the Brilliant power facility and related assets as well as to issue Brilliant Project Bonds as agent and nominee for CPC and CBT Power. The rights to the use and enjoyment of the Brilliant power facility, Brilliant terminal station and related assets were assigned to CBPC.

Under the Agreement, the Venturers specify that, unless otherwise agreed by them, their liabilities and obligations under CBPC's agreements are to be several and equal to their participating interest in CBPC. The Venturers cannot use their CBPC participating interest as security for indebtedness.

### (d) Arrow Lakes Generating Station

Arrow Lakes Power Corporation (ALPC) is jointly owned, on a 50/50 basis, by CPC and CBT Arrow Lakes Power Development Corp., (CBT Arrow Lakes) (a subsidiary of CBT Energy). The purpose of the corporation is to construct and operate the 185 megawatt (MW) Arrow Lakes Generating Station (ALGS) adjacent to the Hugh Keenleyside Dam at Castlegar, British Columbia and a 48 kilometre transmission line from the powerplant to BC Hydro's Selkirk substation.

Prior to July 1, 2003, the rights to the use and enjoyment of the Arrow Lakes Generating Station and transmission line were dedicated to Arrow Lakes Power Company, an unincorporated joint venture of CPC and CBT Arrow Lakes. Effective July 1, 2003, all assets of Arrow Lakes Power Company, including these rights, were transferred to Arrow Lakes Power Corporation (formerly known as Arrow Lakes Power Development Corporation).

### (e) Brilliant Expansion

Brilliant Expansion Power Corporation (BEPC) is jointly owned, on a 50/50 basis, by CPC and CBT Brilliant Expansion Power Corporation (a subsidiary of CBT Energy). The purpose of the corporation is to construct and operate the Brilliant Expansion Project, a 120 MW, $205 million power generation development adjacent to the Brilliant Dam at Castlegar, British Columbia.

### (f) Significant Agreements

#### (i) Entitlement Agreements

Under Entitlement Agreements, British Columbia Hydro and Power Authority (BC Hydro), a Crown Corporation of the Province, coordinates the operations of the Brilliant power facility and ALGS, and receives all of the resulting electrical power. In return, BC Hydro provides CBPC and ALPC with a fixed amount of capacity and energy from the BC Hydro system.

### (ii) Brilliant Power Purchase Agreement

Under the Brilliant Power Purchase Agreement, Aquila Networks Canada (British Columbia) (ANC), a regulated utility operating in British Columbia, will purchase the power under the Brilliant Entitlement. The term of the Agreement is 60 years.

In the first 30 years, the power will be sold on a "take or pay" basis with the price payable by ANC composed of an operation and maintenance cost charge and a return on capital charge. In the second 30 years of the contract with ANC, there will be an annual market-related price adjustment. Additional revenues are received for power entitlement attributable to the effect of turbine upgrades together with regulated water flows. ANC purchases the Brilliant power facility upgrades regulated entitlement power at a price equal to the greater of $26 per megawatt-hour and ANC's cost of purchasing power from BC Hydro.

### (iii) Facilities Interconnection and Investment Agreement (FIIA)

ANC operates and manages the Brilliant terminal station on behalf of CBPC. A Management Committee with an equal number of members from CBPC and ANC must unanimously approve all expenditures. Brilliant terminal station operating and capital costs are recovered from ANC through operations and maintenance and return on capital charges as described in Note 1(f)(ii). The term of the Agreement is coincident with the term of the Brilliant Power Purchase Agreement.

### (iv) Powerex Backstop Agreement

This agreement with Powerex Corp. (Powerex, a subsidiary of BC Hydro) provides for Powerex to purchase the Brilliant Entitlement if CBPC terminates the Brilliant Power Purchase Agreement by reason of default by ANC, ensuring that operational and maintenance costs can be paid and a return on capital is earned.

### (v) Management Agreements

#### CBPC

Under the Brilliant Management Agreement, ANC operates and manages the Brilliant power facility on behalf of CBPC. The management fee and other amounts payable under the Agreement form part of operational and maintenance costs recovered under the Brilliant Power Purchase Agreement (Note 1(f)(ii)).

The Brilliant Management Agreement provides for a Management Committee with an equal number of members from CBPC and ANC who must unanimously approve all expenditures relating to the Brilliant power facility. The term of the Agreement is coincident with the term of the Brilliant Power Purchase Agreement.

#### ALPC

Under a Management Agreement, Aquila Networks British Columbia (ANBC - the unregulated parent company of ANC) operates and manages ALGS on behalf of ALPC.

### (vi) Design-Build Contract - ALGS

In 1998, ALPC entered into a turn-key, design-build contract for approximately $210 million with Peter Kiewit Sons Co. Ltd. (PKS) for the construction of ALGS. Terms of the contract include performance guarantees and significant liquidated damages for failure to achieve performance guarantees.

### (vii) Design-Build Contract - Brilliant Expansion

In 2003, BEPC entered into a turn-key, design-build contract for approximately $167 million with Brilliant Expansion Consortium for the construction of the Brilliant Expansion. Under the contract, the powerplant is scheduled to be completed by the summer of 2006. Terms of the contract include performance guarantees and significant liquidated damages for failure to achieve performance guarantees; a contractor bonus for early completion; a milestone schedule and a schedule of payments to the contractor.

### (viii) Power Sales Right

In 1997, the Venturers acquired the right and obligation to provide up to 86 average MWs from ALGS to BC Hydro during the period January 1, 2003 to December 31, 2014. ALPC intends to use the power under the Entitlement Agreement to meet its obligations under the contract.

### (ix) Green Power Generation Electricity Purchase Agreement (GPG EPA)

In 2003, BEPC entered into the GPG EPA with BC Hydro obtaining the right and obligation to provide 23.12 average MWs from the Brilliant Expansion to BC Hydro for a 20 year period starting August 2006.

## (g) Columbia Basin Initiative Restructuring

In 2001, the Province signed an option agreement granting CBT Energy the right to acquire 100% of the outstanding shares of CPC at a price equal to the greater of CPC's equity book value and market value. The option expires in July 2005.

In January 2004, the Minister of Energy and Mines announced changes to be made to the Columbia Basin Initiative. The Minister's direction to the Trust and CPC included the Province's intention to transfer the shares of CPC to the Trust, and to amalgamate CPC, CBT Energy and its subsidiaries into a single power company with a separate expert Board of Directors. A new agreement between the Province and the Trust will replace a number of existing arrangements between the parties, including the 1995 Financial Agreement, an Agency Agreement between the Province and CPC, and the 2001 Option Agreement.

## 2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

### (a) Consolidated Financial Statements

These consolidated financial statements and notes include CPC's operations and interests in PPPJV, CBPC, BEPC and ALPC. The joint ventures are consolidated using the proportionate consolidation method, whereby CPC's accounts are combined on a line by line basis with its proportionate share (in this case 50%) of the joint ventures' assets, liabilities, revenues, expenses and cash flows. Intercompany balances and transactions between CPC and the joint ventures have been eliminated.

### (b) Temporary Investments

Temporary investments are recorded at the lower of cost and market value.

### (c) Capitalization and Amortization

Capital assets are recorded at cost and are amortized annually at rates calculated to expense the cost of assets over their estimated useful lives. Amortization begins when assets are placed into service.

#### (i) Brilliant Power Facility and Brilliant Terminal Station

The Brilliant power facility is recorded at cost and is amortized on a straight-line basis over 60 years consistent with the 60 year term of the Brilliant Power Purchase Agreement and the revenues provided under that agreement. Capital additions to the Brilliant power facility and the Brilliant terminal station are recorded at cost and amortized on a straight-line basis over 30 years consistent with the 30 year sustaining capital expenditure recovery provided by the Brilliant Power Purchase Agreement and the FIIA. Upgrades capital expenditures are amortized on a straight-line basis over the remaining term of the 60 year Brilliant Power Purchase Agreement, which provides recovery of upgrades capital expenditures over the same period.

#### (ii) Arrow Lakes Generating Station

Capital assets are recorded at cost and depreciated over their expected useful lives. The expected useful lives, in years, are:

| | |
|---|---|
| Powerplant | 11 - 77 |
| Transmission | 33 - 100 |

### (iii) CPC Offices and Equipment

| | | |
|---|---|---|
| Computer systems | - | straight line over 3 years |
| Office furniture and equipment | - | straight line over 5 years |
| Leasehold improvements | - | straight line over 5 years |
| Vehicles | - | straight line over 8 years |

### (d) Deferral of Power Project Costs

Costs incurred in determining the feasibility of acquiring power projects or undertaking preliminary development work on power projects are deferred. Deferred power project costs include all costs attributable to a project as well as capitalized interest and taxes.

When a project is acquired or construction commences, the related deferred costs of that project form part of its capital cost. When a project is abandoned, the costs deferred for that project are expensed. When a project's costs exceed those likely to be recovered, the excess is expensed.

### (e) Deferred Debt Issue Costs

Expenditures incurred in issuing the Series A and B Brilliant Project Bonds and Series A Arrow Lakes Project Bonds are deferred and amortized on a straight-line basis over the term of the bonds.

### (f) Revenue Recognition

ANC is the purchaser of all power received under the Brilliant Entitlement and has the right to the shared use of the Brilliant terminal station. Revenues are recognized when operating and maintenance costs are incurred and as the return on capital is earned in accordance with the Brilliant Power Purchase Agreement (Note 1(f)(ii)) and FIIA (Note 1(f)(iii)). Regulated upgrade revenues are recognized when entitlements are delivered.

Revenues for ALPC are recognized on the basis of energy as set out in the entitlement agreement with BC Hydro (Note 1(f)(i)).

### (g) Taxes

CPC is exempt from corporate income taxes and federal large corporations tax.

### (h) Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

### (i) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

## 3. Cash and Temporary Investments

CBPC and ALPC must apply the payments they receive from the sales of power as set out under agreements with the Project Bondholders.

Under its agreements with Bondholders, CBPC has established a debt service reserve fund in which it maintains cash or cash equivalents equal to one semi-annual payment on the Series A and B Brilliant Project Bonds. CBPC also maintains an operating reserve account in an amount equal to one-quarter of annual operating expenses.

A $7.5 million US dollar money market fund is held by ALPC to offset a US dollar current liability. A Canadian dollar bank account is held for future payment of its commitment for fish entrainment compensation as per Note 18(b).

BEPC cash includes construction trust and letter of credit accounts. The construction trust account is a holding account for scheduled payments to the design-build contractor. The letter of credit account secures a letter of credit issued to BC Hydro for development security under the GPG EPA.

| ($ in thousands) | 2004 | 2003 |
|---|---|---|
| Restricted | | |
| Debt service reserve fund | | |
| Canadian dollar bank account | $ 2,913 | $ 2,913 |
| Operating reserve account | | |
| Short-term bank note | 986 | 1,010 |
| Project construction commitments | | |
| US dollar money market fund | 4,988 | 5,519 |
| Canadian dollar bank accounts | 925 | 134 |
| | 9,812 | 9,576 |
| Available for operations | | |
| Canadian dollar money market fund | 17,946 | - |
| Canadian dollar bank accounts | 2,034 | 6,917 |
| Short-term bank note | 514 | - |
| | 20,494 | 6,917 |
| | $ 30,306 | $ 16,493 |

## 4. Inventories

Land inventory was purchased as a result of transmission Right of Way (ROW) acquisition. Spare parts were acquired as specific items under the design-build contract with PKS.

The value of land held for resale is based on the lower of cost and net realizable value. Any gains or losses upon sale of land inventory will reduce or increase the net cost of the ROW. Spare parts are recorded at cost.

| ($ in thousands) | 2004 | 2003 |
|---|---|---|
| Land | $ 228 | $ 285 |
| Spare parts | 815 | 818 |
| | $ 1,043 | $ 1,103 |

## 5. Capital Assets

| ($ in thousands) | Cost | Accumulated Amortization | NBV 2004 | NBV 2003 |
|---|---|---|---|---|
| Brilliant power facility | $ 102,868 | $ 11,368 | $ 91,500 | $ 91,737 |
| Brilliant terminal station | 11,144 | 239 | 10,905 | - |
| Brilliant lands | 2,359 | - | 2,359 | 2,359 |
| ALPC power facility | 130,233 | 5,600 | 124,633 | 126,657 |
| ALPC transmission | 10,745 | 510 | 10,235 | 10,446 |
| ALPC lands | 3,592 | - | 3,592 | 3,512 |
| Other lands | - | - | - | 40 |
| Computer systems | 314 | 204 | 110 | 128 |
| Furniture and equipment | 258 | 173 | 85 | 149 |
| Leasehold improvements | 435 | 305 | 130 | 219 |
| Vehicles | 143 | 45 | 98 | 89 |
| | $ 262,091 | $ 18,444 | $ 243,647 | $ 235,336 |

## 6. Due from Joint Venture Partner

### (a) Non-Interest Bearing Advance

Under the terms of the Joint Venture Agreements (Note 1), CPC has made interest free advances to fund the Trust's share of joint venture cash contributions. Such advances are secured by the Trust's commitment to use its future power project contributions from the Province to repay any advances owed to CPC from the Trust. Further, the Trust pledges its interest in joint venture assets to CPC while advances are owed by it to CPC.

### (b) Interest Bearing Advance

During the year, CPC made further interest bearing advances to the Trust for power project capital spending from its retained earnings and short-term borrowing. Interest at an average rate of 2.4% (2003 - 2.7%) was charged, based on CPC's investment opportunity cost and short-term borrowing interest incurred. These advances were fully repaid before year end from equity received by the Trust from the Province and from the issuance of long-term bonds.

## 7. Hydroelectric Power Expansion Rights

Hydroelectric power expansion rights are recorded at cost and include options to acquire lands near the Waneta and Brilliant dams at no additional cost and the right to develop and operate new hydroelectric facilities on these lands. The fair value of these rights may differ from cost. A fair value is not readily determinable due to the unique nature of the expansion rights.

## 8. Deferred Costs

Deferred power project costs are carried on the balance sheet of CPC based on management's judgment of anticipated future events. A number of significant estimates and qualitative factors are considered by management in determining the economic viability of each project. Changes in significant assumptions underlying future cash flow estimates may have a material effect on the economic viability of projects.

## 9. Power Sales Right

The power sales right is recorded at cost. Amortization is recorded on the basis of power sold to BC Hydro over the year compared to the total power sales under the agreement. The fair value of the power sales right may differ from its cost. A fair value is not readily determinable due to the unique nature and the extended term of the power sales right.

## 10. Deferred Debt Issue Costs

Debt issue costs incurred by CBPC and ALPC in issuing long-term debt:

| ($ in thousands) | 2004 | 2003 |
|---|---|---|
| Deferred debt issue costs | $ 2,978 | $ 740 |
| Accumulated amortization | (276) | (135) |
| | $ 2,702 | $ 605 |

## 11. Proportionately Consolidated Joint Ventures

CPC participates in four active power project joint ventures with subsidiaries of the Trust. CPC has included in its consolidated financial statements and notes the following financial position, operating results, and cash flows which represent its 50% interest in PPPJV, BEPC, ALPC and CBPC:

### (i) Financial Position

| ($ in thousands) | 2004 | 2003 |
|---|---|---|
| Assets | | |
| Plant and equipment | $ 254,990 | $ 240,864 |
| Accumulated amortization | (17,717) | (12,024) |
| | 237,273 | 228,840 |
| Land | 5,951 | 5,871 |
| Capital assets | 243,224 | 234,711 |
| Deferred costs | 50,926 | 14,784 |
| Expansion rights | 25,925 | 25,925 |
| Power sales right | 10,354 | 11,268 |
| Current assets | 24,619 | 19,369 |
| Other assets | 23,922 | 4,513 |
| | 378,970 | 310,570 |
| Liabilities | | |
| Long-term debt | (124,721) | (86,070) |
| Current liabilities | (16,933) | (13,827) |
| | (141,654) | (99,897) |
| Equity in Joint Ventures | $ 237,316 | $ 210,673 |

## 11. Proportionately Consolidated Joint Ventures (continued)

### (ii) Operating Results

| ($ in thousands) | 2004 | 2003 |
|---|---|---|
| Revenues | | |
| CBPC | $ 15,706 | $ 13,805 |
| ALPC | 14,271 | 30,995 |
| | 29,977 | 44,800 |
| Expenses | | |
| CBPC | 12,425 | 11,038 |
| ALPC | 9,057 | 19,584 |
| PPPJV | 19 | 576 |
| | 21,501 | 31,198 |
| Net income | $ 8,476 | $ 13,602 |

### (iii) Cash Flows

| ($ in thousands) | 2004 | 2003 |
|---|---|---|
| Opening cash and temporary investments | $ 16,183 | $ 5,673 |
| Cash from operations | 14,397 | 23,778 |
| Cash applied to investments | (72,016) | (26,758) |
| Cash from financing | 62,584 | 16,615 |
| Cash distributions | (4,265) | (3,125) |
| Closing cash and temporary investments | $ 16,883 | $ 16,183 |

## 12. Pension Plans

CPC and its employees contribute to the Public Service Pension Plan in accordance with the Public Sector Pension Plan Act. The plan is a multi-employer defined benefit pension plan and is reported separately to the Province.

Employees of CPC are eligible for the same post retirement healthcare benefits as other members of the Public Service Pension Plan. No provision, other than CPC's required employer pension contributions, has been made in the accounts of CPC for this liability.

CPC maintains an executive pension benefit plan (EPBP). Under the EPBP, CPC contributes each year to a trustee, in advance, an irrevocable and renewable letter of credit in an amount necessary to provide the EPBP benefits accruing and any unfunded liability. Employee contributions are not required under the EPBP.

An actuarial valuation of the EPBP was performed by McFarlane Amerlee Consulting Limited Actuaries & Pension and Benefit Consultants, at November 28, 2003. Based on this valuation, a pension liability estimated to be $182,000 at March 31, 2004 (2003 - $153,000) is included in accrued liabilities.

## 13. Long-Term Bonds

The Series A and B Brilliant Project Bonds are secured on a limited recourse basis by charges against the Brilliant power facility including related material contracts, licences, permits, approvals, authorizations and insurance coverages.

The Bonds are redeemable by CBPC in whole or in part at any time before May 31, 2026 at a price equal to the greater of the principal amount then outstanding, or a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond plus 0.30%.

The Series A Arrow Lakes Project Bonds issued on August 28, 2003 are secured on a limited recourse basis by charges against the ALGS Facility and Transmission assets including related material contracts, licences, permits, approvals, authorizations and insurance coverages.

The Bonds are redeemable by ALPC in whole or in part at any time before March 31, 2015 at a price equal to the greater of the principal amount then outstanding, or a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond plus 0.23%.

In 2003 the Province entered into two Advance Rate Setting Agreements, on behalf of CPC, to hedge against a rise in long-term borrowing rates in the first half of 2003/04 on $100 million. The Hedging Instruments were settled on August 28, 2003.

($ in thousands)

| | | | Principal Outstanding | |
|---|---|---|---|---|
| **Series** | **Interest rate** | **Maturity date** | **2004** | **2003** |
| CBPC A | 8.93% | May 31, 2026 | $ 44,613 | $ 45,222 |
| CBPC B | 6.86% | May 31, 2026 | 13,579 | 13,827 |
| ALPC A | 5.39% | March 31, 2015 | 49,472 | - |
| | | | 107,664 | 59,049 |
| Current portion | | | (4,163) | (857) |
| | | | $ 103,501 | $ 58,192 |

| **Principal repayments next five years:** | |
|---|---|
| 2005 | $ 4,163 |
| 2006 | 4,418 |
| 2007 | 4,691 |
| 2008 | 4,980 |
| 2009 | 5,289 |
| **Subsequent years** | 84,123 |
| | $ 107,664 |

## 14. Credit Facility

In accordance with the agreements with Bondholders, CBPC has secured a $10 million credit facility with the Canadian Imperial Bank of Commerce, which would rank equally with the Brilliant Series A and B Bonds.

## 15. Share Capital

Authorized:

100,000,000 common shares, no par value

Issued:

| | |
|---|---|
| 6 common shares | $6 |

## 16. Contributed Surplus

Contributed surplus represents the contributions made by the Province to permit CPC to purchase hydroelectric power expansion rights and to fund power project costs.

## 17. Financial Instruments

CPC's financial instruments consist of cash and temporary investments, accounts receivable and unbilled revenue, power sales right, expansion rights, and accounts payable. Unless otherwise noted, it is management's opinion that CPC is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## 18. Commitments

### (a) Plant Operations

Under its agreements with Bondholders, CBPC and ALPC have committed to keep the Brilliant power facility, Brilliant terminal station and the ALGS in good operating condition and to effect all necessary repairs and replacements according to the requirements of good industry practice.

### (b) ALPC Fish Entrainment Compensation

ALPC has made a commitment to contribute $175,000 annually, adjusted for inflation, to compensate for fish entrainment for as long as fish are entrained in ALGS. This funding will initially be used for fertilizing fish stocks in the Upper and Lower Arrow reservoirs.

### (c) BEPC Contractor Bonus

The construction contract includes a bonus for early completion. The contractor will be entitled to receive a daily bonus amount to August 7, 2006 if marketable power is produced before that date.

## 19. Related Party Transactions

These consolidated financial statements include minor amounts due from, due to and transactions with related parties. Other than the Trust, which charges the joint ventures on a cost recovery basis, all related party transactions are at market rates.

## 20. Subsequent Events

### (a) Non-Interest Bearing Advance Repayment

In April 2004, the Province transferred $50 million to the Trust's segregated trust account. In accordance with the Agreement between the Province and the Trust, the funds were transferred to CPC as partial repayment of the non-interest bearing advance. The funds were immediately used by CPC to fund joint venture power project capital spending.

### (b) ALGS Approach Channel

On May 3, 2004 an underwater camera inspection of the ALGS approach channel revealed that damage had occurred to the concrete lining of the channel, forcing the suspension of generation. The incident is under investigation and remedial work is being performed. The financial impact of this matter, while potentially significant, can not be determined at this time. Management is currently reviewing insurance coverage and remedies under the Design-Build Contract.

### (c) Brilliant Power Corporation

Effective April 1, 2004, all of the assets of CBPC, including the rights and enjoyment of the Brilliant power facility and Brilliant terminal station were transferred to Brilliant Power Corporation (formerly known as Brilliant Power Funding Corporation).

## 21. Contingencies

### (a) Power Projects

CPC's operating and development power project activities are affected by federal, provincial and local government laws and regulations. Under its agreements with its Bondholders, CBPC and ALPC have agreed to comply or cause compliance in all material respects with such laws and regulations as well as to maintain all material franchises. Under current regulations, the Venturers are required to meet performance standards to minimize or mitigate negative impacts of their proposed projects. The impact, if any, of future legislative or regulatory requirements on specific projects and their related deferred costs cannot currently be estimated.

The Venturers' power project construction program is dependent on the funding arrangements detailed in the Agreement between the Province and the Trust. The Agreement states that all of the Province's payments to the Trust and CPC are subject to the appropriation of sufficient funds in that year's Provincial Budget.

### (b) Arrow Lakes Power Corporation

The ALGS construction contractor has made a claim for costs incurred to meet seismic construction standards. While the final outcome of this claim cannot be predicted with certainty, it is the opinion of management that the resolution of the claim will not have a significant effect on ALPC's financial position.

Under the Design-Build Contract at Final Acceptance, all deficiencies of the ALGS must be completed by the construction contractor or liquidated damages will be owed by the contractor to ALPC.

### (c) Brilliant Expansion Power Corporation

The construction contractor has made a claim for costs incurred for construction of the Brilliant Expansion tailrace berm. While the final outcome of this claim cannot be predicted with certainty, it is the opinion of management that the resolution of the claim will not have significant effect on BEPC's financial position.

## 22. Comparative Figures

Certain 2003 figures have been reclassified to conform with the current year's presentation.

## Board of Directors

Lorne Sivertson
President
Columbia Power Corporation

Ed Pietraszek
Corporate Secretary/Treasurer
Columbia Power Corporation

## Officers

Lorne Sivertson
President

Victor Jmaeff
Vice President, Power Supply and Marketing

Bill Freeman
Vice-President, Planning and Development

Giulio Ambrosone
Vice-President, Engineering and Construction

Bruce Duncan
Vice President, Strategic Planning

Ed Pietraszek
Corporate Secretary/Treasurer

Wally Penner
Executive Director, Community
and Regional Affairs

Randall Smith
Comptroller

## Corporate Governance

Columbia Power Corporation was incorporated under the British Columbia Company Act, since replaced by the British Columbia Business Corporations Act. It is owned and controlled by the Province and is an agent of the Province. Under the terms of its agency agreement, Columbia Power Corporation must obtain the approval of the Province's Treasury Board for all budgets and material decisions. Its directors are appointed annually by the Province. All employees are bound by the Columbia Power Corporation Standards of Conduct.

As a government corporation under the British Columbia Financial Administration Act, Columbia Power Corporation is required to maintain its accounts in a manner acceptable to the Minister of Finance. The Auditor General of British Columbia is the auditor for the corporation.

The power project investments of Columbia Power Corporation and the Columbia Basin Trust are guided by the principle, as stated in the Financial Agreement between the Province and the Columbia Basin Trust, that the joint venture management committee formed for a power project will only authorize the commencement of the power project if such commencement is approved by the respective boards of directors of Columbia Power Corporation and the Columbia Basin Trust and such power project would meet conditions precedent as would be set by a reasonable lender for the financing of such power project, including conditions in respect of debt servicing, return on equity, permits, construction agreements, contracts for the sale or distribution of electricity and similar matters.

All operating and capital budgets for a joint venture power project require the unanimous approval of the joint venture's management committee. Such committees consist of three members appointed by Columbia Power Corporation and three members appointed by the Columbia Basin Trust.

*Additional copies of this Annual Report are available from the addresses below:*

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